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MAY 1974

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Intelligence Memorandum

India: Economic Performance and Prospects

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India: Economic Performance and Prospects

India will continue to be threatened by drought and famine in 1974. Foodgrain supplies for the public distribution system are tight. Grain reserves were exhausted during the 1972 drought, and the 1973/74 grain crop is not providing the surplus needed to rebuild depleted stocks. While the 1974/75 crop will be hurt by fertilizer shortages, weather remains the major unpredictable factor. Even a good harvest this coming crop year, however, will not provide the cushion needed to meet grain shortfalls in subsequent years, while a poor crop would probably push New Delhi's grain import requirements to 10 million metric tons or more. Most of this grain, which would cost India a minimum of US $2 billion, would have to come from the United States.

Industrial production, which has increased at an average annual rate of only about 4.5% since the mid-1960 droughts, will remain in the doldrums in 1974. Its growth will continue to be inhibited by government restrictions and controls that retard private foreign investment and by conservative fiscal policies that hold down public investment. Also, transport bottlenecks and chronic energy shortages will dampen production. New Delhi must import two-thirds of its petroleum requirements, and increased crude oil production is a long way off. Coal production and construction of new power stations also are far behind schedule.

A difficult balance-of-payments situation and conservative government policies will hold the volume of India's imports in FY 1974[1] to last year's level. Nevertheless, soaring costs of petroleum, grain, and fertilizer imports and slow export growth will produce a balance-of-payments deficit estimated at more than $2 billion. New Delhi, as always, will be reluctant to draw down foreign exchange reserves, even though they are at unusually high levels, to maintain imports. Although several other sources of foreign assistance – oil concessions, the remainder of last year's Soviet wheat loan, non-project aid in the pipeline, and IMF credits – are available, India will need more than $1 billion in additional foreign assistance in FY 1974 if last year's import volume is to be maintained. New Delhi will, therefore, be carefully weighing its import decisions while searching for help from abroad.

1. The Indian fiscal year begins 1 April of the stated year.

Note: Comments and queries regarding this memorandum are welcomed. They may be directed to [redacted], Code 143, [redacted]

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DISCUSSION

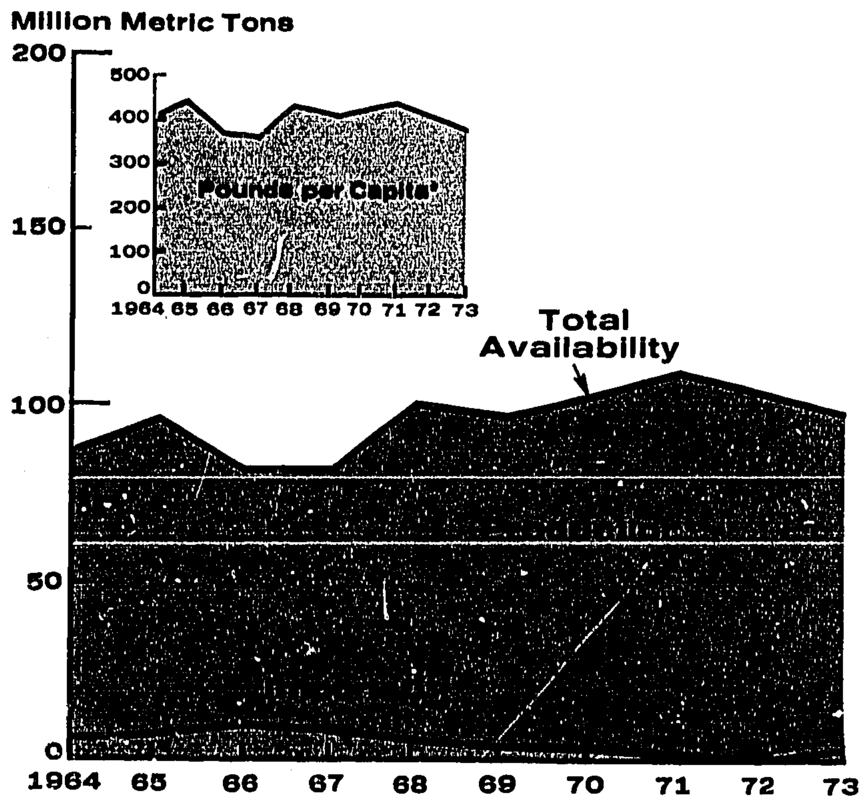
Introduction

1. A sharp increase in Indian agricultural development initiated in 1965 brought marked improvement in agricultural performance. Between 1966 and 1972, production increased 45% and annual grain imports fell from 10.4 million tons to 500,000 tons (see Figure 1). These trends were abruptly reversed, however, by inadequate rainfall during the 1972 monsoon.

2. The ensuing drought had far-reaching effects. Expenditures on crash agricultural development and relief programs coupled with outlays for the December 1971 war with Pakistan created a record budgetary deficit (see Table 1). The subsequent increase in money supply combined with declines in supplies of food and raw materials to boost wholesale prices 10% in FY 1972, compared with average annual increases of only 3% in the preceding four years (see Table 2). Food

Figure 1

India: Foodgrain Production and Imports



*Based on estimated midyear population. Differences in annual per capita availability are smoothed out to some extent by carryover stocks, for which data are not available.

**Crop year ending 30 June of the stated year

***Calendar year

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Table 1

India: The Central Government Budget

Billion Rupees

Fiscal Year[1]	Expenditures	Revenue	Deficit
1965	42.23	40.26	1.97
1966	53.04	49.46	3.58
1967	50.75	48.04	2.71
1968	50.23	48.38	1.85
1969	55.81	56.67	+0.86
1970	61.02	58.43	2.59
1971	75.37	71.52	3.85
1972 (revised budget)	83.01	77.37	5.64[2]
1973 (revised budget)	84.38	77.88	6.50
1974 (budget estimate)	88.6	87.4	1.2

1. Beginning 1 April of the stated year.
2. The final deficit was 8.82 billion rupees.

Table 2

India: Total and Principal Categories of Wholesale Price Indexes

1961 = 100

Fiscal Year[1]	All Commodities	Foodgrains	Industrial Raw Materials	Manufactures	Machinery and Transport Equipment
1961	100.0	100.0	100.0	100.0	100.0
1962	103.8	105.4	97.8	102.6	103.9
1963	110.2	115.2	100.2	104.8	108.3
1964	122.3	145.5	115.9	109.0	111.8
1965	131.6	154.3	132.8	118.1	117.7
1966	149.9	182.9	158.4	127.5	126.5
1967	167.3	228.4	156.4	131.1	131.9
1968	165.4	201.0	157.3	132.7	132.6
1969	171.6	208.2	180.1	143.5	136.4
1970	181.1	206.8	197.3	154.9	148.0
1971	188.4	214.9	191.0	167.1	159.0
1972	207.0	247.6	203.4	176.7	168.2
End of Dec 1972	211.3	254.6	217.2	178.4	169.8
End of Dec 1973	266	305	312.8	215.9	187.0

1. Beginning 1 April of the stated year.

imports jumped, and a promising recovery of industrial production faltered. National income, which showed no increase in FY 1971, declined by 2% in FY 1972 (see Table 3).

3. At the same time, net aid receipts in FY 1972 continued a five-year decline to reach a decade's low of $215 million (see Table 4). New Delhi adjusted for the decline in aid by paring imports while promoting exports, producing the nation's first trade surplus (see Table 5). The cost of this achievement, however, was shortages of industrial materials that eventually retarded

Table 3

India: Estimated Growth Rates of National Income and Selected Sectors of the Economy

Percent

	1961-70 Average Annual Growth Rate	1971	1972
National income[1]	3.4	....	-2.0
Agriculture[2]	2.2	-1.4	-8.0
Foodgrains	2.5	-2.2	-9.6
Commercial crops	1.3	2.0	-3.0
Industry[3]	6.1	2.9	7.0
Basic industries	8.3	5.5	8.6
Iron and steel	6.5	-0.8	9.1
Cement	5.9	7.0	-2.5
Capital goods	8.4	....	8.5
Railroad equipment	-0.7	-26.3	13.7
Prime movers, boilers, and steam generators	17.1	14.9	-16.8
Industrial machinery	1.9	-28.4	38.1
Intermediate goods	4.7	0.1	6.6
Cotton yarn	2.4	-7.3	8.5
Jute manufactures	-1.6	11.3	2.2
Petroleum refinery products	11.5	6.6	0.1
Consumer goods	4.4	3.2	5.3
Tea	2.5	3.7	5.4
Cotton cloth	-0.8	-3.4	4.2

1. Fiscal year beginning 1 April of the stated year.
2. Crop year ending 30 June of the stated year.
3. Calendar year.

Table 4

India: Foreign Economic Aid Receipts and Debt Repayments

Million US $

Fiscal Year[1]	Total Aid Receipts[2]	Debt Repayment[3]	Net Aid	Food Aid	Net Non-Food Aid
1961	718	224	494	181	313
1962	947	235	712	255	457
1963	1,191	261	930	352	578
1964	1,473	322	1,151	482	669
1965	1,567	368	1,199	526	673
1966	1,507	387	1,120	480	640
1967	1,598	444	1,154	466	688
1968	1,259	500	759	287	472
1969	1,188	550	638	245	393
1970	1,096	600	496	177	319
1971	1,089	615	474	135	339
1972	896	681	215	13	202

1. Beginning 1 April of the stated year.
2. Including debt relief.
3. Including interest payments and repayments of principal.

Table 5

India: Estimated Balance of Payments[1]

Million US $

	1972	1973	1974
Exports	2,605	3,000	3,400
Imports	-2,396	-3,245	-4,655
Foodgrain	-78	-600	-700
Petroleum	-271	-484	-1,200
Fertilizer	-120	-200	-500
Other	-1,927	-1,961	-2,255
Trade balance	209	-245	-1,255
Other transactions	-939	-976	-1,010
Debt repayment	-681	-718	-755
Other, net[2]	-258	-258	-255
Overall deficit	-730	-1,221	-2,265
Finance by:			
Food aid	13	200	200
Foreign aid[3]	883	950	N.A.
Transactions with the IMF, net	....	75	375
Aid from Iran and Iraq	....	....	250
Total	896	1,225	825
Change in reserves[4]	166	4	N.A.
Additional financing needed	....	....	1,440

1. Fiscal year beginning 1 April of stated year.
2. Including invisibles, autonomous capital movements, and errors and omissions.
3. Including debt relief.
4. The discrepancy between the change in reserves in Table 5 and Figure 2 has not been resolved.

industrial growth and contributed to inflationary pressures.

Economic Developments in FY 1973

Sluggish Industrial Production

4. Industry continues to suffer from the consequences of the 1972 drought and the government's traditional hostility toward the private sector. Industrial production increased only 2%-2.5% in 1973, compared with 7% in 1972. Electric power failures and shortages of raw materials attributable to drought, and restrictions on the import of industrial goods led to a pronounced drop in production in such key industries as jute and cotton textiles. Moreover, the cumulative effects of several years of low investment contributed to commodity shortages and performance shortfalls in transport, electric power, and irrigation. The desire and willingness of private industry—accounting for about 85% to 90% of the country's industrial production—to buy investment goods and to expand production has been frustrated by restrictive government policies.

5. Although a good monsoon in mid-1973 partly restored hydroelectric output—which normally provides 40% of India's electric power—power shortages continue. Thermal stations are hampered by fuel shortages and damaged by inferior coal, poor maintenance, and even sabotage by disgruntled workers. Moreover, expansion is far behind schedule. Only about 45% of the 9 million kilowatts of new electric power capacity scheduled for the Fourth Five-Year Plan (1969-73) has been completed. Coal production also has fallen short, having been neglected during the 1960s because of an abundance of inexpensive petroleum. Few new seams were opened, and the expansion of coal transport capacity lagged. Production in FY 1973 was about 79 million tons, some 15% below plan. A shortage of coking coal in turn reduced steel output.

6. Soaring petroleum prices and reduced supplies also are having an adverse effect. About 90% of petroleum consumption is for essential industrial and agricultural uses, and India must import two-thirds of its supplies. Increased domestic production of crude oil—most likely from offshore sites—is a long way off. New Delhi has restricted the consumption of gasoline and kerosene by sharply increasing prices. To meet acute fuel oil shortages, the government also is requiring nonessential users to switch to coal as soon as possible. Rail authorities have temporarily halted a general changeover from coal to petroleum and electricity. Shortages and increased costs of raw materials are hampering fertilizer production, which in turn will affect agriculture.

7. Government indecision, policy confusion, and cumbersome procedures continue to harass industrialists as the government enlarges its role in trade and industry through restrictive legislation, licensing, and nationalization. Foreign-owned companies and large Indian businesses remain excluded from most new ventures that are not export oriented. In 1973, New Delhi tightened its import controls, a major constraint on industrial production, by expanding its long list of

embargoed items. It gave state trading organizations exclusive import rights to 20 additional items and reduced the import volume of 55 items essential to various Indian industries below their requirements. Although licensing restrictions recently were eased, particularly for export industries, private investors still are suspicious of the Indian government's intentions.

8. Indian hostility has sharply curtailed private foreign investment. In mid-1973, New Delhi strengthened its Foreign Exchange Regulation Act with amendments giving the government wide discretionary powers over private foreign businesses. The new regulations contain vaguely defined provisions that:

- Restrict foreign equity to 40% or less;
- Restrict domestic borrowing by foreign-owned companies to public sector financial institutions, which can convert the loans to equity;
- Prohibit exclusive sales rights for foreign products; and
- Restrict profit repatriation.

9. Initially, only commercial firms will be required to convert to at least 60% Indian equity. Uncertainties as to whether the measures will be enforced vigorously and whether they will be extended to manufacturing are causing most investors to stay on the sidelines for the time being.

Agricultural Growth Slackens

10. India continues to accord priority to agriculture, which receives the largest share of public investment (see Table 6). Farm output, however, still depends heavily on the weather. The successful effort to increase grain production, which began in the mid-1960s, was based on a new package of agricultural practices including high-yielding varieties of seeds, increased use of fertilizer and pesticides, and assured water supplies. Expanded acreage planted with the new seeds along with generally favorable weather conditions raised yields of wheat sharply during the late 1960s (see Table 7). Rice yields also increased but at a slower rate as none of the high-yielding varieties introduced was fully adapted to the wide range of rice growing conditions found in India. Foodgrain production in the 1970/71 crop year (1 July-30 June) was up 21%, or 19 million tons, above that of 1964/65. About two-thirds of the increase was attributable to increased wheat production—an average annual increase of about 3.5%, which exceeded the 2.5% population growth rate. Since 1970/71, however, grain production has fallen behind population growth primarily because of poor weather. Irrigated lands comprise 43% of wheat acreage and 38% of rice acreage, and much of this acreage also depends largely on rainfall to fill reservoirs and to produce hydroelectric power for ground water pumps. Principally because of the failure of the 1972 summer monsoon, grain output in the 1972/73 crop year fell 9% from the previous year—to 95 million tons.

11. The good 1973 summer monsoon greatly improved agricultural production. The kharif (fall) crop

Table 6

India: Public Sector Investment[1]

Sector	1969	1970	1971	1972	Plan 1973	Plan 1974
	Percent of Total					
Total	100	100	100	100	100	100
Agriculture and allied sectors	14.9	19.1	17.5	19.7	17.8	N.A.
Irrigation and flood control	8.9	8.1	7.3	6.5	6.7	N.A.
Power	21.7	19.8	16.8	15.2	15.7	N.A.
Village and small industries	1.7	1.6	1.5	1.6	N.A.	N.A.
Industry and minerals	19.7	17.1	19.3	18.4	17.2	N.A.
Transport and communication	18.7	18.8	20.0	18.3	N.A.	N.A.
Education	4.0	4.4	5.0	4.9	5.0	N.A.
Scientific research	0.6	0.7	0.9	1.1	N.A.	N.A.
Social services	8.5	9.2	10.3	13.0	N.A.	N.A.
Other	1.3	1.2	1.4	1.3	N.A.	N.A.
	Billion Rupees					
Total	21.8	26.4	31.6	39.7	43.6	47.7

1. Fiscal year beginning 1 April of the stated year. Includes expenditures financed by the central, state, and union territory budgets and internal resources of public sector enterprises.

Table 7

India: Acreage and Yield of Wheat and Rice

	Wheat			Rice		
Crop Year[1]	Total Area (Thousand Hectares)	Area Planted in HYV (Thousand Hectares)	Yield on Total Area (Pounds per Hectare)	Total Area (Thousand Hectares)	Area Planted in HYV (Thousand Hectares)	Yield on Total Area (Pounds per Hectare)
1967	12,838	541	1,989	35,251	888	1,932
1968	14,998	2,942	2,466	36,437	1,785	2,312
1969	15,958	4,793	2,610	36,967	2,681	2,411
1970	16,626	4,918	2,708	37,680	4,343	2,402
1971	18,241	6,480	2,923	37,592	5,589	2,515
1972	19,139	7,861	3,090	37,758	7,411	2,592
1973 (est.)	19,881	10,236	2,805	36,019	8,639	2,400

1. Ending 30 June of the stated year.

was excellent, 15% above that in the previous year. The output of commercial crops also increased: oilseed production rose 25%, cotton 5%, and sugarcane 5%. Although foodgrain production for crop year 1973/74 is expected to reach some 105 million tons—about 10% above the 1972/73 crop—it still will be some 10 million tons short of the government's goal.

12. The shortfall is attributed to the rabi (spring) crop. This crop, which depends on high-yielding strains of wheat, will probably fall 9 million tons short of plan because of the failure of usually reliable winter rains, coupled with reduced supplies of fertilizer, outbreaks of crop disease, and shortages of power for irrigation pumps. Only about two-thirds of the 2.3 million tons of fertilizer needed for the rabi crop are believed to have been available. This shortfall in the spring crop is especially disturbing because surplus wheat from this crop is most heavily counted on to supply government stocks.

13. To meet grain production shortfalls, New Delhi in 1973 purchased about 4 million tons of grain abroad and received a Soviet grain loan of about 2 million tons (most of which will be delivered in 1974). Nonetheless, food supplies remain tight and government efforts in early 1974 to rebuild stockpiles from the rice and coarse grain harvests lagged drastically, as farmers withheld grain from the market and private buyers offered prices higher than the government would pay. Despite government restrictions on grain movements between states, the active open market frustrated New Delhi's hopes to maintain government supplies without paying higher prices. Consequently, the central government could not meet its foodgrain commitments to the states; shortages and rising prices led to widespread food riots and strikes in food-deficit states. Recently enacted measures to make government bids competitive, to permit state governments to arrange their own grain shipments, and to reverse last year's disastrous nationalization of the wholesale wheat trade should ease distribution difficulties. Government procurement is likely to remain inadequate, however, and New Delhi once again must import foodgrains to meet shortages later this year.

14. Food riots and strikes stemming from the food supply situation have marked the early months of 1974. While such outbursts are not uncommon, the occurrence of food shortages and rising grain prices following the relatively good fall harvest was a surprising

and disappointing development. Inflation, low government procurement prices, and New Delhi's failure to import more grain and fertilizer exacerbated domestic grain shortages. Rising grain prices further fed inflation and undermined the government's grain procurement and distribution programs.

Sharp Price Increase

15. Inflation has reached record proportions; by the end of December 1973 wholesale prices were 26% higher than a year earlier.[2] The principal cause was the push of demand against inadequate supplies. On the demand side, the 16% annual rate of increase in the money supply was due primarily to deficit spending by the central government. On the supply side, slow industrial growth and the reduction in agricultural production sharply reduced supplies of manufactured goods, foodgrains and other agricultural foodstuffs, and raw materials.

16. New Delhi's more restrictive monetary policies restrained demand in the private sector, which held down the increase in the money supply. Credit controls were progressively tightened throughout 1973 by raising commercial credit rates and increasing reserve requirements. For the five-month peak trade season ending 31 March 1974, the expansion of bank credit—except for food procurement—was considerably less than the volume of the same period of last year.

17. In an effort to check inflation, New Delhi also has held down development spending and has tried without much success to curb deficit financing. Public sector investment[3] increased 10% in FY 1973, compared with 26% in FY 1972 (see Table 6). (In real terms, investment declined.) New Delhi also announced a 10% across-the-board reduction in government expenditures—except for defense—in August. Since then, however, increased outlays on food subsidies, drought relief, defense, and government salaries have more than offset the reduction, and increased revenues will not make up the difference. The revised FY 1973 deficit of some 6.5 billion rupees was more than seven times the original estimate for the entire year. There is no relief in sight, as the FY 1974 budget projects a continuing deficit. New Delhi continues to be reluctant to tax agricultural incomes, the only remaining untapped large source of revenue.

2. US wholesale prices increased 18% during this period.
3. The Indian budget includes industries that account for only about 15% of industrial production. Agriculture, of course, is essentially all in the private sector.

Increased International Liquidity

18. New Delhi began FY 1973 with nearly $3 billion in liquid international reserves, an increase of $371 million over FY 1971. The structure of the change in India's foreign reserves is shown below:

	Million US $		
	Beginning of Period		
	FY 1971	FY 1973	Change
Total	2,541	2,912	371
Exchange reserves	1,006	1,311	305
Gold	243	293	50[1]
SDRs	44	297	253
Reserve position in the IMF[2]	21	92	71
Foreign Exchange	698	629	-69
IMF quota	940	1,134	194
IMF drawings	....	....	....
Non-project aid pipeline[3]	595	467	-128

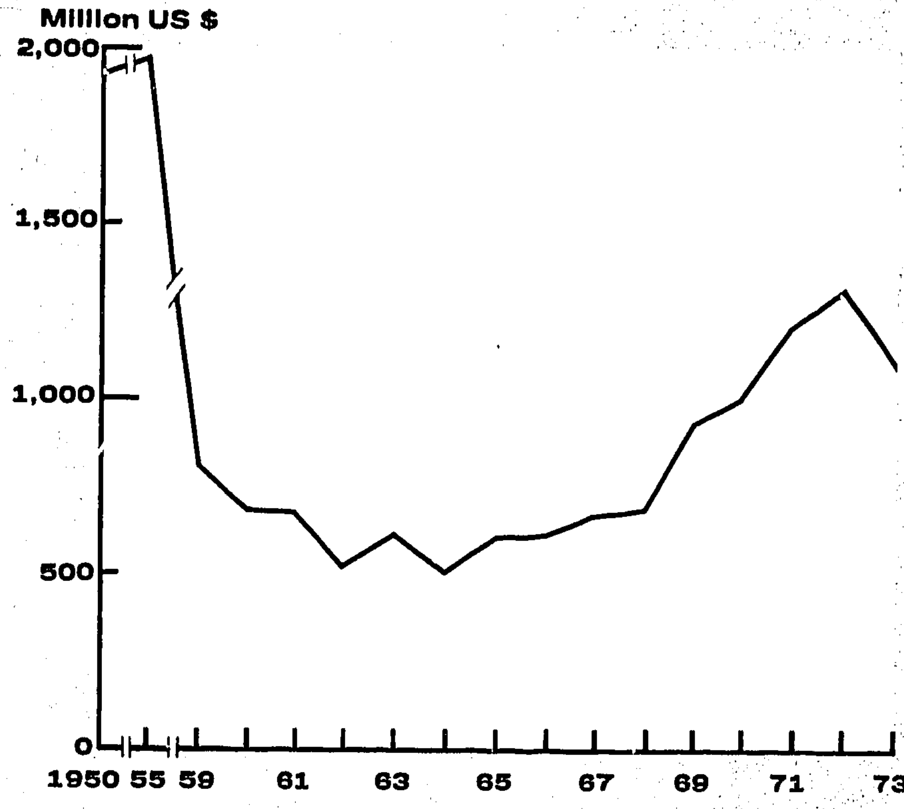
1. Principally increased market value of gold.
2. Normally, a member's quota minus the IMF's holdings of its currency.
3. Project aid of about $1.7 billion, tied to specific aid projects and to the donor country, has been excluded because of the inflexibility of such aid in spurring growth-related imports in the short run.

19. By the end of FY 1973, foreign exchange reserves had been drawn down slightly to about $1.1 billion (see Figure 2), reflecting increased expenditures for imports of foodgrains, fertilizers, and crude oil. The decline would have been larger had India not received $75 million in compensatory financing from the IMF. The Aid India Consortium also increased its commitments for FY 1973 to an estimated $1.4 billion, compared with $889 million in 1972. While the United States has pledged no new aid to India since halting aid in December 1971, other consortium members have raised their contributions and eased their terms of repayment.

20. India began FY 1974 with foreign exchange reserves equivalent to about three months' imports at

Figure 2

India: Foreign Exchange Reserves*



*As of the end of the fiscal year which begins 1 April of the stated year.

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projected FY 1974 levels. This cushion can help meet the sharply increased cost of imports, but concern for the heavy debt service burden and the ever-present threat of crop failures make New Delhi reluctant to use its reserves. Additional sources of foreign exchange are available, however, including:

- Increased private loans in international money markets,
- Increased aid from the Aid India Consortium during the 5-year period 1974-78,
- Deferred payments for crude oil imports from Iran and Iraq, and
- Borrowing from the IMF.

21. India's credit rating in the private international money market is good. Foreign bank loans are available to the Indian government, and Indian firms are seeking funds for the first time in Eurodollar markets. An Indian corporation, for example, has entered the Swiss capital market with India's first international bond issue. US banks also are considering participation in a number of private loans to Indian firms.

22. The World Bank has recommended that the Aid to India Consortium provide $7.4 billion of aid to India during 1974-78, increasing their aid commitments by at least 6% a year. The Bank also recommended that $2 billion of total aid—54% of projected debt servicing—be given in free foreign exchange. Such aid is not assured. Assistance from the IDA, which contributes a substantial share of the total, depends largely on the United States, the major contributor. The House of Representatives recently voted against US participation.

23. The cost of India's projected FY 1974 petroleum imports of 260,000 barrels per day (b/d) of

crude oil and 40,000 b/d of products is estimated at about $1.2 billion, or about one-third of projected export earnings. Iran—which normally supplies about 70% of India's imports—has agreed to supply the Indian government an estimated 48,000 b/d of crude oil in 1974. The nominal cost of the crude—more than $11 per barrel—will be slashed by easy payment terms requiring a $3.50 downpayment and, following a 5-year moratorium, payment of the balance over an additional 5-year period at 2.5% interest. The legal fiction that only one export price is charged is maintained. A somewhat similar Iraqi agreement reportedly will provide 56,000 b/d in 1974. These two agreements will supply India with a total of 104,000 b/d of crude—40% of imports—in 1974 at a balance-of-payments savings of about $250 million.

Mixed Export Growth

24. New Delhi's FY 1973 trade balance probably will show a deficit of about $245 million. Imports have jumped about 35% to more than $3.2 billion as a result of increased foodgrain purchases and higher costs of petroleum, fertilizer, and other products. Commercial purchases of foodgrain will total about $400 million, and petroleum imports will increase about 80% to $485 million. Exports probably rose some 15% to about $3 billion.

25. Unusual circumstances that contributed heavily to a 23% export gain in FY 1972—Indian jute replacing that from war-torn Bangladesh and $150 million worth of goods sold to Bangladesh—did not occur. Also, the terms of trade are turning against India. Nevertheless, exports of cotton textiles, iron ore, and leather were up in the first six months of FY 1973. Jute sales also have soared because of increased prices of petroleum-based synthetics. Although domestic production has stagnated, textile exports have been booming. Tea exports, however, have declined because of disrupted trade with Egypt and Sudan, crop losses resulting from floods in Assam, and lack of shipping space in Calcutta. Production of other export crops, such as sugar, oil seeds, and tobacco, has fallen because of domestic shortages and land diversion into grains and cotton.

26. Sales of engineering goods, on which India pins much of its hope for export expansion, also have been disappointing. Even expanded Soviet trade excludes most Indian engineering goods, as the USSR prefers traditional agricultural-based commodities, especially jute, tea, spices, leather, and cotton textiles. In FY 1972, exports of $172 million in engineering goods represented only 6.6% of total exports, compared with 8.0% in FY 1970. New Delhi, however, has increased incentives to export these and other non-traditional goods. More industries have been brought under export promotion schemes, with import privileges continuing to be closely linked with export performance. Export duties also have been selectively lowered, subsidies increased, and concessional freight rates provided. These measures generated a 17% increase in exports of engineering goods during the first 5 months of FY 1973. Fundamental problems persist, however, including the preference of Indian manufacturers to serve the large, highly protected domestic market.

Outlook

27. India will continue to be threatened by drought and famine. The 1973/74 grain crop will not provide the surplus to rebuild depleted government grain stocks needed to supply the public distribution system. And India needs an additional 2.5 million to 3 million tons of grain each year to feed the 14 million persons added to the population. A good 1974/75 grain crop will not provide the cushion needed to meet grain shortfalls in subsequent years, but a poor crop would probably push New Delhi's grain import requirements to 10 million tons or more. World grain prices would then increase, and grain imports would cost India a minimum of $2 billion, or nearly 60% of projected export earnings in FY 1974. These imports, however, would not rebuild grain stocks, and the country's chronic food-supply problem would continue. In this situation, without substantially increased foreign aid, New Delhi clearly would reduce imports across-the-board and economic growth would decline sharply.

28. With both government development expenditures and private investment at low levels, Indian industry will remain hampered by shortages of raw materials, electric power, fuel, and transport. Industrial growth in the fiscal year ending 31 March probably did not exceed 2.5%, and probably will be less in calendar year 1974.

29. The volume of imports probably will not increase in 1974, because of a difficult balance-of-payments situation and conservative government policies. Even with constant volumes, however, increased import prices for petroleum, fertilizer, food, and capital goods will push India's 1974 import bill up 43% to an estimated $4.7 billion (see Table 5). Fertilizer prices have more than doubled. To maintain the low volume of fertilizer imported in FY 1973 will cost New Delhi $500 million, or an additional $300 million, in FY 1974. Although, as indicated above, foodgrain imports ultimately will depend on the rains from this year's summer monsoon, current estimates are 4 million tons of foodgrain imports, about the same volume as last year, but costing an additional $100 million. To maintain the country's remaining purchases abroad at about last year's volume will cost an additional $300 million.

30. Exports alone cannot pay these greatly increased import costs. Prices for most of the country's major exports have increased at a much lower rate than import prices. Moreover, price increases for cotton textiles of about 25% have been partly offset by the country's 10% dependence on higher priced cotton imports. The price of jute manufactures, another major export, increased only about 15% in 1973, although further increases are likely in 1974 because of higher priced synthetics. Tea prices, however, have stagnated. While other exports will benefit from higher world prices, on balance, India's sales abroad will increase only about 13% to $3.4 billion in FY 1974.

31. India's estimated overall balance-of-payments deficit of nearly $2.3 billion is expected to be reduced about $825 million by:

- the $200 million remaining Soviet food loan,
- the $250 million oil concession from Iran and Iraq, and
- a $375 million International Monetary Fund (IMF) standby credit which India has recently requested.

Additional means to finance the remaining $1.4 billion deficit are needed. New Delhi's foreign exchange reserves are about $1.1 billion, the equivalent of about three months' imports at projected FY 1974 levels, but the government, as always, will be reluctant to draw down these reserves to maintain imports. Unused non-project aid of about $450 million cannot be drawn down rapidly, because it is generally tied to specific products and countries. On balance, if foreign aid of more than $1 billion is not forthcoming, New Delhi will probably squeeze the volume of imports down below last year's austere level. Indian officials will be weighing their import decisions more deliberately than ever—missing some opportunities for profitable trade in the process—while searching for help from abroad.